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UNITED DRUG COMPANY

EXECUTIVE OFFICES, BOSTON, U.S.A.

BOSTON, MASS.

STATISTICAL LIBRARY
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NOT TO BE TAKEN

September 10, 1921.

Messrs, Kidder, Peabody & Co.,
Messrs. F. S. Moseley & Co.,
Boston, Massachusetts.
Chase Securities Corporation,
Bankers Trust Co.,
New York, N. Y.

Gentlemen:

Enclosed herewith is Balance Sheet of United Drug Company Consolidated as of June 30th, 1921 and December 31st, 1920; also Six Months Earning Statement of January 1st, 1921 to June 30th, 1921, compared with the same period of 1920.

You will observe that our Quick Assets show a decrease of $6,000,000; our Quick Liabilities show a decrease of $16,350,000. However, there must be charged against this decrease in liabilities our issue of Gold Notes and Gold Bonds, amounting to $15,000,000. That there was not a further reduction in our Quick Liabilities was due to the fact that on December 31st we had contract obligations for the completion and equipment of our new factories, commitments for the purchase of stocks and bonds, amounting in all to $4,281,000. All such contracts and obligations have been completed and paid for and we have no further investment or building commitments of any kind. Our contracts for raw materials are below normal for the volume of business that we are now doing.

We have carefully reviewed our inventories, both in the manufacturing plants and retail stores, as of June 30th and have written them down to or below replacement value: so that we can say with safety that we are now manufacturing and retailing based on present market values of our supplies and raw materials.

In order to place ourselves on the basis as above indicated we have cut heavily into our surplus. Our gross volume in dollars for the first six months of this year shows a decrease of 13% compared with the same period a year ago. However, as our prices have been reduced over 20%, it is apparent that we have sold more units of merchandise in the same period than was sold a year ago. It is to be observed in our operating sheet that our gross profit has shrunk from 34.5% to 31.1%; that our percentage of expenses to sales was up .82 of 1%, although the expenses were reduced in dollars and cents almost a million dollars. The net effect of this is to reduce our net profits from operations from 9.78% to 5.57%. This is the lowest profit that has ever been made in the history of the Company and is due very largely to the cost of liquidation of inventories and to loss of volume in our manufacturing plants, as for the first six months of the year our retail business showed a decrease of only 1% over the same period of last year.

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K.P & Co.)
F.S.M. & Co.) -2-
C.S. Corp.)
B.T. Co.)

We feel that there has been a complete change in the past sixty days. July and August sales of our manufacturing plants show substantial increases over the same two months of last year, which were the largest July and August in the Company's history.

Economies and expenses that were put into effect the first of the year were not all effective in the first six months' showing, but are now showing actively in our monthly statements and will be much more apparent in the last six months than in the first.

Gross profit will be materially improved and should be in the last six months comparable with that of a year ago owing to the fact that we have brought our merchandise down to present market values.

Our Drug, Perfume and Candy Factories are now operating normally. We are increasing monthly the number of our employees in our St. Louis Factory and enlarging its work. We are now employing over 900 people in that plant. Our Rubber Plant at New Haven had the largest sales and production in its history for the month of August, and is now on a paying basis. With the exception of Fancy Stationery and our Fruit Syrup business we have, within the past sixty days, reached both normal production and sales. Our Stationery Plants are operating at about 65% of normal, and our Fruit Syrup Plant, 70% of normal but not of capacity.

The net result of these things cannot help but show materially in the increased earning power of the Company in the last six months of this year, which will reflect a material benefit in the Balance Sheet. Since July 1st we have reduced our Notes Payable account $950,000.

Yours very truly,

Louis K Liggett

President

UNITED DRUG COMPANY CONSOLIDATED
EXCLUDING LIGGETTS INTL. LTD. INC.
COMPARATIVE BALANCE SHEET.

FORM 105 AS AT JUNE 30, 1921

Items	June 30, 1921	Jan. 1, 1921	Increase	Decrease
ASSETS				
Cash	3,973,318.25	2,299,947.49	1,673,370.76	
Government Bonds	39,626.04	40,976.04		1,350.00
Accounts Receivable	6,146,765.97	7,501,802.43		1,355,036.46
Notes Receivable	1,891,083.29	1,252,330.63	638,752.66	
Merchandise Inventory	16,139.628.04	23,115.848.29		6,976.220.25
Total Quick Assets	28,190,421.59	34,210,904.88	2,312,123.42	8,332,606.71
Furn. Fix. Utensils & Machy.	8,547,228.78	8,234,793.44	312,435.34	
Leaseholds and Improvements	3,151,692.50	3,026,020.63	125,671.87	
Land and Buildings	5,797,994.35	5,519,228.28	278,766.07	
Investments: Stocks & Bonds	10,329,524.65	7,339,126.50	2,990,398.15	
Advances and Deferred Items	1,527,532.38	953,063.39	574,468.99	
Trade Marks, Good-will etc.°	22,793,688.96	22,793,688.96		
Total Assets	80,338,083.21	82,076,826.08	6,593,863.84	8,332,606.71
Net Increase or Decrease				1,738,742.87
			Decrease	Increase
LIABILITIES				
Accounts Payable (Not Due)	3,244,281.99	4,580,814.72	1,336,532.73	
Notes Payable (Parent Co.)	* 2,190,500.00	18,410,578.52	16,220,078.52	
Notes Payable (Subsid.Co.)	* 2,579,752.64	2,379,941.50		199,811.14
Total Quick Liabilities	8,014,534.63	25,371,334.74	17,556,611.25	199,811.14
Real Estate Bonds and Mortg's	1,022,780.00	1,022,900.00	120.00	
5½ year 8% Gold Notes	2,750,000.00	.00		2,750,000.00
20 year 8% Conv. Gold Bonds	12,250,000.00	.00		12,250,000.00
Common Stock Subscriptions	659,700.00	.00		659,700.00
1st Preferred Capital Stock	16,321,900.00	16,321,900.00	.00	
2nd " Capital Stock	183,100.00	308,300.00	125,200.00	
Common " Capital Stock	33,925,100.00	29,928,900.00		3,996,200.00
Stocks of Subsid. Outsdg.	713,700.00	716,200.00	2,500.00	
Reserves	3,299,235.81	3,662,103.04	362,867.23	
Surplus	1,198,032.77	4,745,188.30	3,547,155.53	
Total Liabilities	80,338,083.21	82,076,826,08	21,594,454.01	19,855,711.14
Net Increase or Decrease			1,738,742.87	

° Includes Patents, Processes and Formulae.

*Combined Notes Payable have been reduced $950,000 as of September 9th 1921.

UNITED DRUG COMPANY CONSOLIDATED
EXCLUDING LIGGETT'S INTERNATIONAL LTD.INC.
COMPARATIVE STATEMENT OF EARNINGS
JANUARY 1st to JUNE 30th

	1921		1920	
Net Sales	28,409,126.20	1.0000	32,896,190.35	1.0000
Cost of Merchandise Sold	19,550,425.37	.6882	21,523,523.59	.6543
Gross Profit	8,858,700.83	.3118	11,372,666.76	.3457
Operating Expenses	7,277,132.01	.2561	8,154,662.68	.2479
Net Merchandising Profit	1,581,568.82	.0557	3,218,004.08	.0978
Other Income:-	89,015.24	.0031	36,487.22	.0011
Total Profit	1,670,584.06	.0588	3,254,491.30	.0989
Depreciation, Taxes, etc.	479,080.94	.0169	600,451.82	.0182
Final Net Profit*	1,191,503.12	.0419	2,654,039.48	.0807

*Before Interest.